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**Workers' Compensation Benefits Adequacy, Equity and Benefits Costs: Evidence from Canada on Two Approaches to Compensation for Permanent Impairment**

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**Importance of Research:** Work disability is one of the most costly and prevalent health issues in North America, yet few studies have investigated the labor-market earnings recovery of individuals who have sustained permanent impairments from work accidents. Fewer still have investigated the adequacy, equity, and cost of wage-loss compensation provided by workers' compensation. In this study we investigate these issues using two samples of individuals sustaining a permanent impairment from a work accident and receiving benefits from two markedly different permanent disability programs in Ontario. The older program is a single benefit, impairment-based pension program. The more recent program is a dual award program that provides benefits based on loss of earnings capacity, and a non-economic loss award for pain, suffering and loss of enjoyment of life based on a permanent impairment rating.

**Study Objectives:** There are three related objectives in this study: 1) to determine whether there are significant differences in labor-market earnings experiences post-accident between individuals receiving benefits from an impairment-based benefits program and a loss of earnings capacity based benefits program; 2) to evaluate the adequacy and equity of benefits provided by the two programs; and 3) to compare the relative cost of providing benefits based on the two approaches to benefits determination.

**Summary of Methods:** We utilized the unique linkage of two administrative data sources. Administrative data records from the Ontario Workplace Safety & Insurance Board were the source of information on injured workers with permanent impairments arising from a work accident. This information was linked to the Longitudinal Administrative Databank, a 20% sample of Canadian tax filers. We compared long-term, post-accident, labor-market earnings of claimants from the two programs with those of a sample of uninjured individuals with similar socio-demographic characteristics and earnings profiles prior to the accident year. The evaluation of benefits adequacy, equity, and costs was based on one-year cohorts from each of the two samples and on benefits receipt in the sixth year post-accident.

**Summary of findings:** We found that the percentage of permanent impairment significantly underestimates the percentage of earnings losses of claimants in both samples. Further, we found that the loss of earnings capacity based benefits program was more adequate and equitable than the impairment-based benefits program, and that benefit costs were lower for the former program.

**Conclusions:** This study is relevant to disability income policy development in jurisdictions across Canada and the United States. Most jurisdictions share several common goals: 1) to provide fair, adequate and prompt payment of benefits; 2) to administer the program at low cost; and 3) to encourage early and safe return to work. Many jurisdictions have experimented with different benefits determinations formulae in an effort to achieve these goals, but most have had modest success. Our findings suggest that permanent disability benefits based on percentage of total bodily impairment, a common approach to benefits determination, is less desirable than loss of earnings capacity based benefits, on the grounds of adequacy, equity, and benefit costs.